

# MEMO

Mercy Medical Center – Des Moines

January 8, 2009

To: Mercy Family

From: David Vellinga, President & CEO and Jackie Frost-Kunnen, Senior VP Hospital Operations

Re: Medicaid 1 Percent Increase

As you may know, in the closing hours of its 2008 session, the Iowa Legislature passed a 1 percent increase in Medicaid payments for larger hospitals (non-Critical Access Hospitals) and other Medicaid providers in Iowa. There has been much misinformation and confusion regarding this issue. While all questions about it have not been answered, we are writing today to tell you what we do know, and what our plan is going forward.

Here's what we know so far:

1. The actual requirement in the bill passed is that hospitals report to the State the amount of salary increases for nurses for the fiscal year beginning July 1, 2008. Legislative leaders' stated intent at the time of passage was for the additional money to support increases in direct patient care nursing salaries.
2. The increase in payments to hospitals is 1 percent of Medicaid payments – NOT a 1 percent increase in nursing salaries. This is a very key difference. Medicaid payments comprise 5% of our hospital's overall budget, so a 1 percent increase in Medicaid results in an increase of approximately \$340,000 annually or approximately \$175 per year for a full-time nurse (prorated for part-time and PRN nurses).
3. The increase from the State was effective July 1. Because it takes time for the State to implement changes, and because Medicaid payments are received about 60 days after discharge, Mercy only recently began seeing the first payments including the new rates.
4. In the meantime, the Governor has announced across-the-board cuts in all State funding. As a result, we may not receive the additional 1 percent from Medicaid as originally anticipated.
5. Despite the reports people are hearing, it is our understanding from talking to Iowa Health System, Broadlawns and the Iowa Hospital Association, that no hospital in Central Iowa has made any payments to nurses as a result of this legislation.

Mercy's Plan:

1. We will determine what rates Mercy is being paid, for Medicaid discharges after July 1, and make projections of any increased or decreased Medicaid revenues.
2. We will determine, under the language in the law, which employees are eligible.
3. If the data shows the State is paying the additional money, Mercy will include a lump-sum payment to the eligible employees on their regular paychecks at the time of overall salary increases later this fiscal year.

In short, we are trying to sort this out and are gathering the necessary data. Once we have it, we will make final decisions regarding this issue and will communicate with you again. We want to close by making clear Mercy has and will follow the reporting requirements of the new law. Equally important, we want to do all we can to support the wonderful nurses and other members of the Mercy Family with whom we are privileged to work every day.

Thank you for your patience and understanding as we deal with this and a host of other complex issues facing us and other health care providers.